

COVERSTORY



INVESTING

HAVE KNOTS

GETTING STEAMED UP OVER SA'S
10 'FASTEST' GROWING COMPANIES

By Bruce Whitfield

Great companies sometimes make for lousy investments: the smart money has been there for some time and while you might have the certainty of dividend income and sure and steady growth over time, the odds are that others spotted the opportunity long before you and have capitalised on that. However, some great companies operate under the radar and deliver exponential growth. But are all stellar performers worth investing in?

Name South Africa's fastest growing companies over the past three years. Just quickly in your head: nothing fancy, just pause and consider for a moment. We're not talking share price here; we're looking at companies that may surprise and delight investors in years to come and may have been overlooked by the market.

What names did you come up with? I wouldn't be surprised if included on your list were the likes of Naspers, Capitec, Shoprite or maybe even Mr Price. Surprisingly enough, you'd be wrong. They fall into that category where lots of money has been made over the past decade – but their multiples are demanding, courtesy of the fact investors are banking on their continued strong underlying performance. They're all great businesses in their own right but it doesn't mean investors buying them now will see superior returns later.

Warren Buffett is quoted too often nowadays, so forgive this one. But it makes sense: "Great investment opportunities come around when excellent companies are surrounded by unusual circumstances that cause the stock to be misappraised."

Finweek's data service provider McGregorBFA assessed three different key indicators of growth, looking at companies listed in 2006 to give an unambiguous three-year comparison to year-end December 2009. Companies, such as banks, that don't report turnover numbers, were excluded: besides which, they'd hardly have featured anyway considering their trials and tribulations. Firms with negative earnings per share at either the

40 FASTEST-GROWING COMPANIES

	Full name	EPS Comp. Growth (%)	Turnover Comp. Growth (%)	IRR %	Average (%)
1.	CONDUIT CAPITAL	207,23	404,00	-26,69	194,85
2.	KUMBA IRON ORE	197,34	120,92	47,25	121,84
3.	ASSORE	127,48	37,63	69,42	78,18
4.	BEIGE HOLDINGS	157,13	92,51	-38,02	70,54
5.	SPANJAARD	178,69	10,98	21,03	70,23
6.	ESORFRANKI	69,37	124,28	8,94	67,53
7.	BRAIT SA	50,78	143,21	-0,10	64,63
8.	FONEWORX HOLDINGS	75,44	33,68	44,64	51,25
9.	BUILDMAX	18,90	150,01	-15,20	51,24
10.	OASIS CRESCENT PROPERTY FUND	54,63	87,64	7,38	49,88
11.	HOWDEN AFRICA HOLDINGS	81,99	24,09	42,40	49,49
12.	PETMIN	64,61	64,65	7,87	45,71
13.	AFRICAN RAINBOW MINERALS	69,41	29,74	21,52	40,22
14.	WILSON BAYLY HOLMES-OVCON	65,17	36,59	16,85	39,54
15.	BASIL READ HOLDINGS	54,91	58,90	4,50	39,44
16.	INDEQUITY GROUP	40,47	28,69	44,70	37,95
17.	VOX TELECOM	22,17	119,71	-29,33	37,52
18.	MURRAY & ROBERTS HOLDINGS	60,56	43,70	7,92	37,39
19.	SHOPRITE HOLDINGS	39,83	20,97	41,19	34,00
20.	ELB GROUP	62,34	23,28	12,00	32,54
21.	WESCOAL HOLDINGS	50,09	47,24	0,00	32,44
22.	ASPEN PHARMACARE HOLDINGS	28,04	36,31	32,77	32,37
23.	AVENG LTD	50,54	28,13	11,18	29,95
24.	TRANSPACO	41,64	31,23	14,59	29,16
25.	RESILIENT PROPERTY INCOME FUND	26,34	41,85	17,86	28,68
26.	GIJIMA GROUP	57,82	15,60	12,16	28,53
27.	OMNIA HOLDINGS	46,66	36,89	1,76	28,44
28.	NICTUS	53,05	11,02	21,22	28,43
29.	DIMENSION DATA HOLDINGS PLC	58,08	9,01	15,33	27,47
30.	AFRICAN & OVERSEAS ENTERPRISES	47,32	15,63	17,51	26,82
31.	FAMOUS BRANDS	23,95	32,29	23,60	26,61
32.	EOH HOLDINGS	24,35	35,61	17,32	25,76
33.	HOSKEN CONSOLIDATED INVESTMENTS	13,16	56,27	7,46	25,63
34.	CLICKS GROUP	31,89	6,78	37,67	25,45
35.	CAPITAL PROPERTY FUND	28,46	22,83	22,47	24,59
36.	PINNACLE TECHNOLOGY HOLDINGS	33,02	38,75	1,49	24,42
37.	OCEANA GROUP	35,30	9,07	28,42	24,26
38.	OANDO PLC	1,32	11,49	59,59	24,13
39.	CASHBUILD	28,67	23,18	19,31	23,72
40.	JSE	40,40	21,75	7,14	23,10
	OFF THE PACE				
1.	MVELAPHANDA GROUP	-46,29	6,48	-9,90	-16,57
2.	EVRAZ HIGHVELD STEEL & VANADIUM	-45,68	-14,91	9,85	-16,91
3.	OLD MUTUAL PLC	-36,32	-6,76	-14,93	-19,34
4.	METOREX	-20,57	-5,13	-33,43	-19,71
5.	ANGLO PLATINUM	-61,87	-2,08	2,66	-20,43
6.	JD GROUP	-62,22	2,67	-12,50	-24,02
7.	LIBERTY HOLDINGS	-81,43	3,11	4,60	-24,57
8.	ITALTILE	-70,88	0,46	-6,04	-25,49
9.	METAIR INVESTMENTS	-72,77	8,15	-20,10	-28,24
10.	COMBINED MOTOR HOLDINGS	-68,35	-0,87	-19,34	-29,52

Criteria applied to the data:

1. Calculations done for the three years to December 2009 to be able to compare apples with apples;
 2. Only companies listed since 2006 are included;
 3. Companies with no turnover are excluded; and
 4. Where either the beginning or end EPS is negative, the company is also excluded. Compound growth cannot be calculated with negative figures.
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- a. EPS and turnover growth is quantified by calculating the compound growth over three years.
 - b. Total return is quantified by calculating the IRR over three years to December 2009.
 - c. Total ranking is done by calculating the average of the three variables.
 - d. IRR is calculated taking all corporate actions into consideration.

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Each one of us aches to be the next Buffett: to identify stocks that lie unloved and untended only to be discovered and turned into the next big winner.

Most of the companies included in the top 10 fastest growing over the past three years are nothing short of surprising. There are some that – even in SA's small market – you may never have heard of. We've published a list of the top 40 performers over that period, but have concentrated our analysis on the 10 best performers, providing each with our – admittedly subjective – "opportunity ranking": identifying the companies we believe will continue to outperform and still provide investors with potential to reap handsome returns.

Small cap specialist Shawn Stockigt of Stanlib comments: "Although earnings growth might be there, often there's no cash being generated – which is fine for a growth company for a while, provided the cash goes to growing the business. But if the money spent on growth generates a return lower than the cost of capital over a reasonable period of time then it's just not worth it and shareholders would have

been better off had the cash simply been paid out."

Stockigt prefers the steady, more pedestrian, sustainable earnings growth provided by firms such as Hudaco, Spur, Ceramic Industries, Advtech and City Lodge. But remember: City Lodge is a company – had we published this report in 2000 – we

might have missed out on. Had you invested R750 in City Lodge in 2000 you'd have a current holding worth around R7 600 – not a bad return, especially if you consider you would've received about R2 224 in dividends over the same period. Is there another City Lodge tucked in SA's top 10 performers over the past three years? ■